Annual Financial Report

Farmington Community Library

For the Year Ended June 30, 2008

with Independent Auditors' Report

Farmington Community Library, Michigan
Annual Financial Report
For the Fiscal Year Ended June 30, 2008

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Financial Section

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Independent Auditors' Report

To the Board of Trustees of
Farmington Community Library:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Farmington Community Library, Michigan (Library) as of June 30, 2008, and for the year then ended, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Farmington Community Library, Michigan at June 30, 2008, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 8, and 31 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. For the management's discussion and analysis, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 23, 2008

Management’s Discussion and Analysis

Farmington Community Library
Management's Discussion and Analysis

This section of Farmington Community Library annual financial report presents our discussion and analysis of the Library's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the Library's financial statements, which follow this section.

Governmental Accounting Standards Board Statement No.34

Farmington Community Library has prepared this report in accordance with the Governmental Accounting Standards Board Statement No. 34 reporting requirement. Known as GASB 34, the new reporting requirement includes this letter, provides a comparative analysis between the current-year and prior-year financial information. The following information presents a comparative analysis of key elements of the total governmental funds and the total enterprise funds.

Financial Highlights

- The Library's total assets are $20.1 million and net assets amounted to $13.9 million.
- During the year, the Library-wide governmental activity revenues generated in taxes and other revenues were $1,401,679 greater than expenses for Library operations, of which $1,252,713 was for bond debt retirement.
- General Fund revenues exceeded expenditures and other uses by $481,537 compared to fiscal year 2007 excess revenues over expenditures and other uses of $590,553. The reduction, in part, resulted from larger transfers made to the Capital Reserve Fund in FY '07. General Fund fund balance increased to $2,923,791.

Overview of the Financial Statements

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the Library:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Library's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Library government, reporting the Library's operations in more detail than the government-wide statements.
- The governmental fund statements tell how general government services were financed in the short term as well as what remains for future spending.
- Unlike other governmental entities, the library has no activities requiring Proprietary Fund statements.
- Fiduciary Fund statements provide information about the financial relationships in which the Library acts as an agent that administers the fund for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds, each of which are added together and presented in single columns in the basic financial statements.

Table 1 summarizes the major features of the Library's financial statements, including the portion of the Library government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Table 1 Major Features of Farmington Community Library
Government-wide and Fund Financial Statements
Fund Statements

Type of Statements	**Government-wide**	**Governmental Funds**
Scope	Entire Library government (except fiduciary funds)	The activities of the Library that are not proprietary or fiduciary in nature
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Statements

The government-wide statements report information about the Library as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Library's net assets and how they have changed. Net assets – the difference between the Library's assets and liabilities – is one way to measure the Library's financial health or position.

- Over time, increases or decreases in the Library's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the Library you need to consider additional non-financial factors such as changes in the Library's property tax base.

The government-wide financial statements of the Library are classified into the following category:

- Governmental activities – The Library's basic services are included here. Property taxes and state grants finance most of these activities.

Farmington Community Library's Condensed Balance Sheet

	Governmental Activities 2008	Governmental Activities 2007
Current and other assets	$ 4,674,137	$ 3,831,663
Capital assets	15,385,695	15,796,947
Total assets	$20,059,832	$19,628,610
Current and other liabilities	$ 1,341,847	$ 1,242,794
Long-term liabilities	4,803,260	5,872,770
Total liabilities	6,145,107	7,115,564
Net assets:		
Invested in capital assets, net of related debt	9,680,695	9,111,947
Unrestricted	4,234,030	3,401,099
Total net assets	13,914,725	12,513,046
Total liabilities and net assets	$20,059,832	$19,628,610

It can be seen that total net assets for the Library increased $1,401,679 during 2008. Most of the increase is due to operating revenues over expenditures during the year.

Governmental Statement of Activities

		2008		2007
Revenues:				
Program revenues:				
Charges for services	$	226,471	$	220,821
Operating grants and contributions		77,905		87,741
General revenues:				
Property taxes		7,653,398		7,411,897
State of Michigan		199,847		217,888
Other		160,825		224,645
Total revenues		8,318,446		8,162,992
Expenses:				
General government		6,644,054		6,337,477
Interest on long term debt		272,713		308,013
Total expenses		6,916,767		6,645,490
Increase (decrease) net assets		1,401,679		1,517,502
Net assets - beginning of year		12,513,046		10,995,544
Net assets - end of year	$	13,914,725	$	12,513,046

Total revenues increased $155,454 mainly as a result of an increase in property taxes. Operating expenses for the Library increased $571,277 or 4.1% from $6,645,490 to $6,916,797 due to normal inflation.

Fund Financial Statements

The fund financial statements provide more detailed information about the Library's most significant funds – not the Library as a whole. Funds are accounting devices that the Library uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.

- The Library Board establishes other funds to control and manage money for particular purposes (like the Employee Benefit Fund) or to show that it is properly using certain taxes and grants.

The Library has two kinds of funds:

- Governmental funds – Most of the Library's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.

- Fiduciary fund - The Library maintains a fiduciary fund for the Metro Net Agency Activities.

Financial Analysis of the Library as a Whole

Changes in Net Assets:

The Library's combined net assets are $13,914,725. In comparison, last year net assets were $12,513,046, an increase of $1,401,679. The increase was due primarily to general revenues exceeding operating expenses.

Governmental Activities:

The Library's total operating expenses were $6,916,767. There were charges for services and fines ($266,471) gifts and grants ($77,905). General revenues consisted of property taxes ($7,653,398), penal fines and state aid ($199,847) and investments earnings ($160,825). These activities resulted in an increase in net assets of $1,401,697, for an 11% increase.

Financial Analysis of the Library's Funds

As the Library completed the year, its governmental funds reported a combined fund balance of $4,658,797. The fund balance is reserved for Endowment purposes in the amount of $281,617, and is designated for capital improvements of $1,156,703, and employee benefits of $39,426, leaving fund balance of $2,923,791 for daily library operations.

General Fund Budgetary Highlights

Capital Assets

At the end of 2008, the Library had invested $9,680,695 in capital assets, net of related debt. These assets are recorded and depreciated using methods consistent with those established by the Governmental Accounting Standards Board (GASB).

Long-term Debt

At year-end the Library had $6,685,000 in bonds and notes outstanding for governmental activities.

Budgets

Increases in proposed expenditures and transfers in the final budget by a total of $251,821 or 3% over the original budget were approved. Most of the increase related to a larger transfer to the Capital Reserve Fund.

Economic Factors and Next Year's Budgets and Rates

Financial stability for operating monies, the primary goal of the Trustee's strategic plan, was accomplished at a May 2005 election, with voter approval of a dedicated operating millage of 1 mill for 20 years. These library summer taxes were levied and collected beginning July 1, 2005, replacing the quarterly appropriations from the cities of Farmington and Farmington Hills. This is in addition to the .6 mil (.5856 with Headlee reduction) the Library levies each December, until 2013.

As a result of this funding the Library has been able to move forward with the objectives outlined in the Farmington Community Library Strategic Plan 2005-2008, as follows:

- Debt retirement of the $13 million bond continues to be the first obligation of the library with priority payment.
- The fund balance was developed, as recommended by the auditor, to be at a minimum, 10% of operating funds to accommodate cash flow requirements, especially with the Library's financial independence from the cities.

- The Board established and contributes to a funding vehicle based on actuarial projections to offset the future liabilities related to fringe benefits to retirees, in compliance with GASB 34.
- The Board also designates funds for the Capital Reserve Fund to cover costs for future maintenance and replacement of buildings and equipment, including technology and automation. Substantial amounts were added to this fund this fiscal year.

The budget expenditures in 2007-2008 resulted in some exciting improvements to library operations. The print and computer management system installed in August 2008 at both buildings has increased printing revenues by fifty percent. Major upgrades to computers and servers were accomplished for the May 2008 installation of our new library automation system to replace one installed in 1992.

In March 2008 Standard & Poor's Ratings Service raised its standard long-term rating and underlying rating (SPUR) on Farmington Community Library's debt to 'AA-' from 'A'.

Next Year's Budgets and Rates

Economic forecasts for Michigan continue to assume a slower economy with lower revenues, continued job loss and housing prices continuing fall and to erode the property tax base. Anticipated revenues for 2008-2009 are 1.2% less than the previous year due to a decrease in taxable value of property. Legislative discussions include proposals for additional tax captures, reductions in State Aid, and elimination of the Personal Property tax, all of which may jeopardize library funding. In recognition of these fiscal uncertainties the Library Board is focused on planning for both sustainable funding and cost containment for library operations.

During the 2008-2009 fiscal year the Library budget plans for expenditures to replace out-dated electrical fixtures with energy-saving replacements; to renovate bathrooms at both locations, and to update landscaping and some furnishings and equipment at the Branch.

Planning and preparations for the Farmington Community Library Strategic Plan for 2009-2013 began summer 2008.

Requests for information

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library Director, 32737 West Twelve Mile Road, Farmington Hills, MI 48334-3302.

Basic Financial Statements

Government-wide Financial Statements

Farmington Community Library
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Cash and equivalents	$ 3,995,812
Investments	281,617
Accounts receivable	246,436
Prepaid items	134,676
Investment in joint venture	15,596
Capital assets (net of accumulated depreciation)	15,385,695
Total assets	**$ 20,059,832**

(continued)

Notes to the financial statements are
an integral part of this statement.

Farmington Community Library
Statement of Net Assets (Continued)
June 30, 2008

	Governmental Activities
Liabilities and Net Assets	
Liabilities:	
Accounts payable	$ 181,352
Accrued liabilities	75,652
Noncurrent liabilities:	
Due within one year	1,084,843
Due in more than one year	4,803,260
Total liabilities	6,145,107
Net assets:	
Invested in capital assets, net of related debt	9,680,695
Unrestricted	4,234,030
Total net assets	13,914,725
Total liabilities and net assets	**$ 20,059,832**

Notes to the financial statements are
an integral part of this statement.

Farmington Community Library
Statement of Activities
For the Year Ended June 30, 2008

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Functions\Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government				
Governmental activities:				
General government - Library operations	$ 6,644,054	$ 226,471	$ 77,905	$ (6,339,678)
Interest on long-term debt	272,713	-	-	(272,713)
Total governmental activities	**$ 6,916,767**	**$ 226,471**	**$ 77,905**	(6,612,391)
General revenues:				
Property taxes - Special millage				7,653,398
State penal fines and shared revenues				199,847
Unrestricted investment earnings				160,825
Total general revenues				8,014,070
Change in net assets				1,401,679
Net Assets - Beginning, as restated				12,513,046
Net Assets - Ending				**$ 13,914,725**

Notes to the financial statements are an integral part of this statement.

Fund Financial Statements

Farmington Community Library
Balance Sheet
Governmental Funds
June 30, 2008

	General	Endowment Permanent Fund	Special Revenue: Capital Reserve Fund	Special Revenue: Non-Major Employee Benefit Fund	Total
Assets					
Cash and cash equivalents	$ 2,801,545	$ -	$ 1,156,703	$ 37,564	$ 3,995,812
Investments	-	281,617	-	-	281,617
Accounts receivable	244,318	-	-	2,118	246,436
Prepaid expenses	134,676	-	-	-	134,676
Due from other funds	256	-	-	-	256
Total assets	**$ 3,180,795**	**$ 281,617**	**$ 1,156,703**	**$ 39,682**	**$ 4,658,797**
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 181,352	$ -	$ -	$ -	$ 181,352
Accrued liabilities	75,652	-	-	-	75,652
Due to other funds	-	-	-	256	256
Total liabilities	257,004	-	-	256	257,260
Fund balances:					
Reserved for other purposes	-	281,617	-	-	281,617
Unreserved reported in:					
Designated for capital improvements	-	-	1,156,703	-	1,156,703
Designated for employee benefits	-	-	-	39,426	39,426
Undesignated	2,923,791	-	-	-	2,923,791
Total fund balances	2,923,791	281,617	1,156,703	39,426	4,401,537
Total liabilities and fund balances	**$ 3,180,795**	**$ 281,617**	**$ 1,156,703**	**$ 39,682**	**$ 4,658,797**

Notes to the financial statements are an integral part of this statement.

Farmington Community Library
Reconciliation of the Fund Balance as Reported in the
Governmental Balance Sheet to the Statement of Net Assets
For the Year Ended June 30, 2008

Total Governmental Funds Fund balance as reported in the Balance Sheet Governmental Funds	$	4,401,537
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		15,385,695
Investment in joint ventures not included as an asset in the governmental funds		15,596
Long term liabilities, including long term notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.		(5,888,103)
Net Assets - Governmental Activities	**$**	**13,914,725**

Notes to the financial statements are an integral part of this statement.

Farmington Community Library
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

			Special Revenue		
	General Fund	Endowment Permanent Fund	Capital Reserve Fund	Non-Major Employee Benefit Fund	Total
Revenues					
Property taxes	$ 7,653,398	$ -	$ -	$ -	$ 7,653,398
Intergovernmental revenues:					
State of Michigan	199,847	-	-	-	199,847
Memorials and gifts	76,905	-	-	-	76,905
Investment income (loss)	146,220	(16,645)	29,952	1,298	160,825
Grants	1,000	-	-	-	1,000
Fines	129,896	-	-	-	129,896
Other	93,377	-	-	3,198	96,575
Total revenues	8,300,643	(16,645)	29,952	4,496	8,318,446
Expenditures					
General government:					
Salaries	2,570,787	-	-	-	2,570,787
Fringe benefits	1,182,335	-	-	18,638	1,200,973
Professional services	107,143	-	-	-	107,143
Utilities	251,575	-	-	-	251,575
Automation related expenditures	74,505	-	-	-	74,505
Insurance	82,407	-	-	-	82,407
Repairs and maintenance	228,506	-	-	-	228,506
Gift fund purchases	18,718	-	-	-	18,718
Other operating expenditures	365,411	-	-	65	365,476
Metro Net contribution and shared expenditures	38,570	-	-	-	38,570
Capital outlay:					
Capital improvements	533,794	-	-	-	533,794
Books, periodicals, and library materials	741,673	-	-	-	741,673
Debt service:					
Principal and interest retirement	1,252,713	-	-	-	1,252,713
Total expenditures	7,448,137	-	-	18,703	7,466,840
Excess (deficiency) of revenues over expenditures	852,506	(16,645)	29,952	(14,207)	851,606
Other Financing Sources (uses)					
Transfers in	-	-	340,469	30,500	370,969
Transfers out	(370,969)	-	-	-	(370,969)
Total other financing sources (uses)	(370,969)	-	340,469	30,500	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	481,537	(16,645)	370,421	16,293	851,606
Fund Balance - Beginning of year	2,442,254	298,262	786,282	23,133	3,549,931
Fund Balance - End of year	**$ 2,923,791**	**$ 281,617**	**$ 1,156,703**	**$ 39,426**	**$ 4,401,537**

Notes to the financial statements are an integral part of this statement.

Farmington Community Library
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2008

Amounts reported for governmental activities in the statement of activities (page 11) are different because:

Net change in fund balances - total governmental funds (page 14)	$	851,606
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period		(411,252)
Investments in joint ventures not included in governmental funds		(3,342)
Change in liabilities for compensated absences are recorded when incurred in statement of activities		(15,333)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items		980,000
Change in Net Assets of Governmental Activities	**$**	**1,401,679**

Notes to the financial statements are an integral part of this statement.

Farmington Community Library
Balance Sheet
Fiduciary Funds
June 30, 2008

	Metro Net Agency
Assets	
Cash and cash equivalents	$ 215,737
Accounts receivable	96,178
Total assets	**$ 311,915**
Liabilities and Fund Balances	
Liabilities:	
Due to members	**$ 311,915**

Notes to the financial statements are an integral part of this statement.

Notes to Basic Financial Statements

I. Summary of Significant Accounting Policies

The accounting policies of the Farmington Community Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Farmington Community Library.

A. Reporting Entity

The Farmington Community Library (the "Library") was established in 1956 and serves the Farmington communities through two libraries located in Farmington and Farmington Hills. The Library is governed by an eight-member Board of Trustees and an appointed Library Director. It provides resources for the informational, educational, cultural, and recreational needs of its patrons. The residents of both cities approved an independent tax millage in 2005 that allows the Library to no longer be dependent on subsidies from the Cities after the year ended June 30, 2005.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. There are no component units for the Library.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Library currently does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library currently has no proprietary or enterprise funds.

I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Endowment Permanent Fund receives donations restricted as to use. Generally, only the interest can be used for Library operations. The Fund was created in 1992 by Board resolution.

The Capital Reserve Fund accounts for monies specifically restricted for the purchase of certain property and equipment, accounted for as expenditures of the General Fund. (note that the Library does not adopt a formal budget for the Capital Reserve Fund; as a result, no budgetary comparison is presented as required supplemental information).

Additionally, the government reports the following fund types:

Special Revenue Funds - These funds are used to account for specific governmental revenues that are legally restricted to expenditure for particular purposes.

Fiduciary Fund – This fund, used to account for assets held in a trust or as an agent for others, includes the Metro Net Agency Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

   The Library's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments:

   Investments for the Library are stated at fair value based on quoted market prices. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

3. Receivables and payables

   In general, outstanding balance between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

   All trade, notes, contracts, and property tax receivables are shown net of an allowance for uncollectibles.

4. Prepaid items

   Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital assets

   Capital assets, which include property, plant and equipment, and books, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

I. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Capital assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	15-39
Vehicles	5
Books	10
Equipment and furniture	3-7

6. Employee vacation and sick leave

Library employees have a vested right to receive payment for unused vacation and sick leave under conditions specified in the personnel policy manual. All vacation and applicable sick leave is accrued when incurred at the government-wide. A liability for these amounts is reported in governmental funds only for employee terminations at year end.

7. Long-term obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the statement of net assets.

- Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.
- The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Permanent endowment

Generally, only the interest in the endowment permanent fund for which restricted donations have been received can be used for Library projects as periodically determined by the Library Board. Currently, the entire net assets are shown as “restricted for other purposes.”

I. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. Property taxes

Property taxes attach as an enforceable lien on property as of December 31 each year. Library taxes, levied and immediately due July 1, are collected by the Cities of Farmington and Farmington Hills without penalty through September 15, and with penalty thereafter. Library property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are budgeted and available for the financing of operations.

The 2007 total taxable valuation for the Farmington and Farmington Hills communities totaled $4.822 billion (a portion of which is abated and a portion of which is captured by the DDA and TIFA), on which taxes levied consisted of 1.5856 mills for operating purposes. One mill expires in the year 2024 while .5856 mills expire in 2013. The amounts levied resulted in $7,653,398 which is recognized in the General Fund.

II. Reconciliation of Government-wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds and notes payable	$5,705,000
Compensated absences	183,103
Net adjustment to reduce *fund balance -total governmental funds* to arrive at *net assets -governmental activities*	$5,888,103

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	$ 847,362
Depreciation expense – net	(1,258,614)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$(411,252)

III. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Library employs the following procedures in establishing the budgetary data reflected in the financial statements:

- In March, the Library Director submits to the Board of Trustees, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Appropriations are made on an object (line-item) basis.
- The budget is legally enacted through passage of a resolution by the Board of Trustees.
- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budget amounts included in the financial statements are as originally adopted or as amended by the Board during the year. The legal level of budgetary control adopted by the governing body is the line item level. Individual amendments were not material in relation to the original appropriations. Appropriations unused at June 30 are not carried forward to the following year.

IV. Detailed Notes on All Funds

A. Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan association that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Endowment Permanent Fund is also authorized by Michigan Public Act 157 of 1976 and the Endowment Fund Policy, as amended, to invest in:

- Cash
- Bonds, bills or notes of the United States; obligations, the principal of and interest on which are fully guaranteed by the United States; obligations of the State of Michigan; or securities issued or guaranteed by agencies or instrumentalities of the United States Government.
- Commercial paper rate A_1/P_z, bankers acceptances, certificates of deposit and United States Governmental repurchase agreements.
- Mutual funds composed of stocks, bonds, debentures and other securities of profit or nonprofit corporations and those investment vehicles which are guaranteed by agencies or instrumentalities of the United States Government.

IV. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (Continued)

The Library has designated five financial institutions for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all of the above mentioned investment vehicles. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:
Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had $203,155 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:
Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Library's name:

Type of Investment	Carrying Value	How Held
Governmental security money market mutual funds	$3,818,186	Counterparty
Stock mutual fund (endowment)	162,780	Counterparty's trust department

Interest rate risk:
Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

Investment	Carrying Value	Weighted Average Maturity
Stock mutual fund (endowment)	$162,780	Not available

IV. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (Continued)

Concentration of credit risk:
The Library places no limit on the amount it may invest in any one issuer. None of the Library's investments are concentrated in any one issuer more than 5 percent.

B. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Artwork	$ 157,449	$ -	$ -	$ 157,449
Land	130,410	-	-	130,410
Total capital assets, not being depreciated	287,859	-	-	287,859
Capital assets, being depreciated:				
Buildings and sites	16,772,011	41,376	-	16,813,387
Furniture and equipment	2,394,383	277,288	(28,558)	2,643,113
Books	5,272,317	528,698	-	5,801,015
Vehicles	57,294	-	-	57,294
Total capital assets being depreciated	24,496,005	847,362	(28,558)	25,314,809
Less accumulated depreciation:				
Buildings and sites	4,124,572	452,621	-	4,577,193
Furniture and equipment	1,785,801	307,823	(25,778)	2,067,846
Books	3,019,250	495,390	-	3,514,640
Vehicles	57,294	-	-	57,294
Subtotal	8,986,917	1,255,834	(25,778)	10,216,973
Total capital assets, being depreciated, net	15,509,088	(408,472)	(2,780)	15,097,836
Governmental activities capital assets, net	$15,796,947	$(408,472)	$ (2,780)	$15,385,695

C. Interfund Receivables, Payables, and Transfers

	Transfer In Non-major Funds
Transfer out – General Fund	$370,969

Transfer between funds was primarily for operating purposes.

IV. Detailed Notes on All Funds (Continued)

D. Long-term Debt

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. The tax levy is used to liquidate the long-term debt. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

Long-term liability activity for the year ended June 30, 2008 can be summarized as follows:

	General Obligation Bonds	Compensated Absences	Total
Governmental activities:			
Debt at July 1, 2007	$6,685,000	$167,770	$6,852,770
Principal payments made	(980,000)	-	(980,000)
Compensated absences	-	15,333	15,333
Total governmental activities long-term debt	$5,705,000	$183,103	$5,888,103

	Final Payment Due	Interest Rate or Range	Original Amount of Issue	Balance at June 30, 2007	Issuances During Year
Governmental activities:					
1998 Library Building and Site Bonds	2013	3.5-4.4%	$12,000,000	$5,970,000	$ -
2003 Library Building and Site Bonds	2013	1.5-3.1	1,050,000	715,000	-
Compensated absences				167,770	15,333
Total governmental activities				$6,852,770	$ 15,333

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30,	Governmental Activities Principal	Governmental Activities Interest
2009	$ 1,030,000	$ 235,308
2010	1,085,000	194,916
2011	1,140,000	151,072
2012	1,195,000	104,186
2013	1,255,000	53,958
Total	$5,705,000	$739,440

Retirements During Year	Balance at June 30, 2008	Due Within One Year
$(880,000)	$5,090,000	$925,000
(100,000)	615,000	105,000
-	183,103	54,843
$(980,000)	$5,888,103	$1,084,843

V. Other Information

A. Retirement Plans

The Library has two retirement plans in existence. One is a defined benefit plan and the other is a defined contribution plan. Each are described in the following note.

1. Defined benefit plan:

   The Farmington Community Library participates in the Michigan Municipal Employees Retirement System (MERS) which is an agent multiple-employer public employee retirement system (PERS) that is administered by Michigan Employees Retirement System (an independent not-for-profit organization). The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The plan is included in the annual report of MERS which can be obtained from the offices of MERS in Lansing Michigan. The Library has no fiduciary responsibility for the plan.

   To be eligible for participation in this plan, an employee had to be hired and enrolled prior to July 1999. This plan requires active employees to work a minimum of 80 hours per month. As of December 31, 2007, the Library had 18 covered, active employees, 2 inactive, vested employees who have not yet reached retirement age but have left the Library's employee, and 24 retirees and their beneficiaries. Covered payroll for the year ended June 30, 2008 was $828,125.00.

   The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for early retirement at age 55 with 25 or more years of service. Election of early retirement is subject to reduction of benefits as outlined below.

   Participants are entitled to a retirement benefit equal to the credited service at the time of membership termination multiplied by 2.0%, of the member's final average compensation (F.A.C.). The retirement allowance is reduced 1/2% of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available.

   Defined benefit contributions:

   The plan provides that the employer/employees contribute amounts necessary to fund the actuarially determined benefits. The Library makes employer contributions in accordance with funding requirements determined by MERS' actuary. Benefit provisions and contribution obligations have been established by the contract.

V. Other Information (Continued)

A. Retirement Plans (Continued)

1. Defined benefit plan (continued):

Actuarial assumptions:
The significant actuarial assumptions used to compute the actuarial accrued liabilities are as follows:

	Library
Actuarial valuation date	December 31, 2006
Actuarial cost method	Entry age - Normal
Amortization method	Level percentage of payroll
Remaining amortization period (weighted)	23/10 years depending on group
Asset valuation method	(1)
Actuarial assumptions:	
Investment rate of return	8.0
Projected salary increase	(2)

(1) 10 year smoothed market

(2) 4.5% wage inflation plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. The range of the percentages are from 12.9% for a 20 year-old participant to 4.5% for a 60 year-old participant.

Retirement plan - defined benefit - Michigan Municipal Employee Retirement System:

Annual pension cost

The Library's Annual Required Contribution (ARC) and Annual Pension Cost (APC) for the year ended June 30, 2008 was $96,324. All employer contributions made were equal to required contributions by MERS. There was no accumulated Net Pension Obligation (NPO) at June 30, 2008. The Annual Pension Cost (APC), percentage of APC contributed, and Net Pension Obligation (NPO) for the year ended June 30, 2008, 2007, and 2006 are summarized as follows:

Plan Year End	Actuarial Valuation Date	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Obligation
6/30/06	*	$ 92,166	100.0%	$ -
6/30/07	12/31/06	77,448	100.0	-
6/30/08	*	96,324	100.0	-

*Obtained in letters from MERS stating monthly contribution for the fiscal year.

V. Other Information (Continued)

A. Retirement Plans (Continued)

1. Defined benefit plan: - (continued)

Pension Plan
Schedule of Funding Progress

Actuarial Valuation Date 12/31	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability	(3) Percent Funded (1)/(2)	(4) Unfunded (Funding Excess) AAL (UAAL) (1)-(2)	(5) Annual Covered (Valuation) Payroll	(6) UAAL as Percent of Covered Payroll (4)/(5)
2006	$6,340,024	$6,549,959	96.8%	$209,935	$888,584	24.0%
2005	6,005,747	6,221,099	96.5	215,352	988,763	22.0
2004	5,745,179	5,823,615	98.7	78,436	959,072	8.0
2003	5,363,814	5,542,202	97.0	178,388	1,133,183	16.0
2002	4,998,826	5,328,712	94.0	329,886	1,159,074	28.0
2001	4,831,694	4,835,241	99.9	3,547	1,103,778	0.0
2000	4,501,512	4,458,454	101.0	(43,058)	1,074,740	0.0

2. Defined contribution plan:

During the year ended June 30, 2000, the Farmington Community Library began a defined contribution pension plan. All regular employees of the Library hired after July 15, 1999, and working 80 hours or more per month are eligible to participate in the plan. Employees hired before July 15, 1999 had a one-time option to remain with the MERS Defined Benefit Pension Plan, or to transfer their retirement accruals to the Defined Contribution Plan. The transfer occurred on March 29, 2000.

Defined contribution plan contributions:
The plan provides that the Library will contribute 5% of eligible employee's gross wages to the plan, and employees may contribute after-tax wages to the plan. The contributions are self-directed by the employees among several investment options. Contributions are fully vested at the time of the contribution. Employees may withdraw pension accruals upon termination from the Library. For the year ended June 30, 2008, employer contributions to the plan were $66,710, and employee contributions to the plan were $6,204.

V. Other Information (Continued)

A. Retirement Plans (Continued)

3. Other postemployment benefits

   The Library provides postemployment health benefits to its full-time employees who are retired and vested with at least 10 years. Beginning with the fiscal year 2006-2007, the Library elected to participate in the MERS Retiree Health Fund as the method to fund retiree health care for current employees. The MERS plan is an agent multi-employer defined benefit plan. The Library obtained an actuarial valuation which computed a 25.89% of payroll Annual Required Contribution or $328,295 for 2007-2008. This amount was paid by the Library into the MERS plan during the year. Also, the Library currently pays for postemployment health benefits for certain retirees that were full time. The Library pays a certain percentage of premium costs of coverage for these benefits as well as reimburses a portion of the retirees Medicare premiums. Currently, 10 retirees are eligible for postemployment health benefits. There was approximately $122,907 in payments for postemployment health benefit premiums for this selected group made during the year.

B. Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Library has purchased commercial insurance coverage for all claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Library maintains a self-insured plan for dental, optical, and hearing impairment medical claims. The Library reimburses each employee for 75% of claims up to a maximum of $1,375 out of pocket expense less $25 deductible per year. Total claims expense for the year ended June 30, 2008 amounted to $18,638. Liability for unpaid claims was immaterial at June 30, 2008.

C. Joint Venture - Metro Net

The Metro Net Library Consortium (the “Consortium” or “Metro Net”) is a Michigan nonprofit corporation incorporated in January 1994, whose members are eight public libraries: Baldwin (Birmingham), Bloomfield Township, Canton, Farmington Community, Independence Township, Rochester Hills, Southfield, and West Bloomfield Township. The Consortium was founded to promote resource sharing by creating a flexible environment conducive to experimentation, technology innovations and progressive approaches to library service. These members pay an annual membership fee to the Consortium for shared services.

The Farmington Community Library is the principal office of Metro Net, with the Farmington Community Library director serving as the Consortium’s fiscal agent and on the Consortium’s Board of Directors. The financial activities of Metro Net are reported in the Fiduciary Agency Fund.

Total Metro Net assets held by the Library as fiscal agent at June 30, 2008 amounted to $311,915. The Library’s share of the net assets was $15,596. Internal statements for the Metro Net are on file at the Library’s main office.

D. Prior Period Adjustment

Net Assets have been restated as of June 30, 2007 from $10,862,839 to $12,513,046 to correct prior year net capital assets due to book inventory being understated in error.

Required Supplementary Information

Farmington Community Library
General Fund
Schedule of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2008

	Budgeted Original	Budgeted Final	Actual	Variance With Final Budget- Favorable (Unfavorable)
Revenues				
Property taxes	$ 7,457,691	$ 7,709,512	$ 7,653,398	$ (56,114)
Intergovernmental revenues:				
State of Michigan	178,144	178,144	199,847	21,703
Memorials and gifts	58,000	58,000	76,905	18,905
Interest and dividends	138,400	138,400	146,220	7,820
Grants	-	-	1,000	1,000
Fines	123,000	123,000	129,896	6,896
Other	76,500	76,500	93,377	16,877
Total revenues	8,031,735	8,283,556	8,300,643	17,087
Expenditures				
General government:				
Salaries	2,674,455	2,674,455	2,570,787	103,668
Fringe benefits	1,174,868	1,192,268	1,182,335	9,933
Professional services	110,000	110,000	107,143	2,857
Utilities	320,000	320,000	251,575	68,425
Automation related expenditures	67,000	77,000	74,505	2,495
Insurance	95,000	95,000	82,407	12,593
Repairs and maintenance	260,000	265,000	228,506	36,494
Gift fund purchases	58,000	58,000	18,718	39,282
Grants	-	-	-	-
Other operating expenditures	417,000	456,000	365,411	90,589
Metro Net contribution	40,000	43,000	38,570	4,430
Capital outlay:				
Capital improvements	746,188	605,542	533,794	71,748
Books, periodicals, and library materials	757,000	773,609	741,673	31,936
Debt service:				
Principal and interest retirement	1,246,724	1,252,713	1,252,713	-
Total expenditures	7,966,235	7,922,587	7,448,137	474,450
Excess of revenues over expenditures	65,500	360,969	852,506	491,537
Other Financing (Uses)				
Transfers out	(65,500)	(360,969)	(370,969)	(10,000)
Excess of revenues and other sources over expenditures and other uses	-	-	481,537	481,537
Fund Balance - Beginning of year	2,442,254	2,442,254	2,442,254	-
Fund Balance - End of year	**$ 2,442,254**	**$ 2,442,254**	**$ 2,923,791**	**$ 481,537**

Farmington Community Library

Report to the Board of Trustees

June 30, 2008

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To the Board of Trustees
Farmington Community Library

We have recently completed our audit of the basic financial statements of the Farmington Community Library (the "Library") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Library:

We are grateful for the opportunity to be of service to the Farmington Community Library. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

September 23, 2008

plante moran

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Report on Internal Control

September 23, 2008

To the Board of Trustees
Farmington Community Library

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Library's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this ***Report on Internal Control*** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Farmington Community Library as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Accounting for the Employee Benefit Fund – Currently, the Library uses a commercial package (i.e. Solomon) for its general ledger accounting and financial reporting. The software allows one entity to be accounted for (as opposed to multiple entities) and the Library has most appropriately chosen the General Fund as the entity to be accounted for. As such, the Library must improvise and use off-line Excel spreadsheets to account for its many other separate funds. For the Employee Benefit Fund the Library has been reconciling the bank account for this fund on a timely basis. However, the general ledger accounting for the transactions has not been performed. While there currently is not a great deal of activity for this fund until year end, we suggest that management maintain a subsidiary ledger in Excel for the separate Employee Benefit Fund showing the activity at the account level.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency technically constitutes a material weakness.

Capital Asset Valuation – During the year the Library replaced the existing database software, Dynex, with Polaris. The database software is used to track the Library's purchase and disposal of books. The transition to the new software provided the accounting staff with an opportunity to revisit how books were being valued on the financial statements. During this review, it became evident that in the past, the person responsible for querying the database to generate the book inventory reports did not totally understand the information needed to calculate the total book inventory value. As a result, the reports used caused incomplete information to be used which resulted in an understatement of the valuation of the books. A prior period adjustment was needed in order to adjust books to the proper balance.

This communication is intended solely for the information and use of management, the Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,
Plante & Moran, PLLC

Tadd Harburn, CPA

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Results of the Audit

September 23, 2008

To the Board of Trustees
Farmington Community Library

We have audited the financial statements of the Farmington Community Library for the year ended June 30, 2008, and have issued our report thereon dated September 23, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 5, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Library. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated July 10, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Farmington Community Library are described in Note I to the financial statements.

To the Board of Trustees
Farmington Community Library

As described in Note V, the Library changed accounting policies related to capital asset valuation. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates used in preparation of the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial

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statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the organization we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the organization's auditors.

This information is intended solely for the use of the Board of Trustees and management of the Farmington Community Library and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

Tadd Harburn, CPA

Other Recommendations

Wire Transfers and Controls Over Cash

Through our procedures, it came to our attention that the accountant has the ability to add new vendors, initiate wire transfers, post entries to the general ledger and complete bank reconciliations. These combined responsibilities constitute a lack of segregation of duties. We understand that the Library Director reviews and approves wire transfers, however, there is no requirement that the Library Director initial the form to document this review. We suggest the Library Director initial the wire transfer form to document her review. Also, we would recommend the Library Director review and approve journal entries that are posted. Lastly, we recommend that the Library Director (or her designee other than the accounting staff) directly receive, open, and review bank statements prior to the bank reconciliation being completed as well as review cancelled check images received from the banks. We recognize that segregation of duties is limited by the size of the department but these items would improve upon the controls already in place.

Special Revenue Fund Budgets

It was noted that the client has two special revenue funds, Employee Benefit Fund and the Capital Reserve Fund, where no formal budget has been adopted. Even though there generally is minimal activity within these funds, state law requires budgets to be adopted for the General Fund and any Special Revenue Funds. We suggest creating a budget for these funds and having the Board formally adopt them prior to the start of each year.